

PREPARED DIRECT TESTIMONY
OF ERIC KAUFMAN

I.C.C. Docket No. 00-0028

ILLINOIS
COMMERCIAL COMMISSION
APR 5 4 27 PM '00
CHIEF CLERK'S OFFICE

1. Q. Please, state your name and business address.

A. Eric Kaufman. 108 East Third Street, Gridley, Illinois, 61744

2. Q. By whom are you employed and in what capacity?

A. I am employed by Gridley Enterprises, Inc. and its affiliates. Gridley Enterprises, Inc., is the parent company of Gridley Telephone Company, Gridley Communications, Inc., and Gridley Cellular, Inc. Gridley Telephone Company is a local exchange telecommunications carrier with certificated service areas. Gridley Communications, Inc., is presently only an interexchange telecommunications carrier. Gridley Cellular owns certain interests in three certificated cellular providers. I am President of Gridley Enterprises, Inc. I am also President of Gridley Telephone Company, Gridley Communications, Inc. and Gridley Cellular, Inc.

3. Q. Please, tell us your background in the telephone industry.

A. I have been working full time in all phases of the telecommunications business for the past 20 years. All of my service has been with the Gridley companies and their affiliates. I have worked with both local and long distance telephone service. I have worked with outside plant and inside plant, digital switching, fiber optics and commercial operations. I have been directly involved in the management of the companies since 1988.

In addition to the positions that I hold with Gridley Enterprises and its direct affiliates, I am also a member of the Board of Directors of the three cellular companies I mentioned earlier; Illinois Valley Cellular RSA 2-I Partnership, Illinois Valley Cellular RSA 2-II Partnership, Illinois Valley Cellular RSA 2-III Partnership, as well as Illinois Valley Cellular RSA 2, Inc., which was formed to provide interexchange telecommunications services with respect to the cellular service provided by the three cellular partnerships. I have been associated with these companies for approximately 5 years. I am also a member of the Board of Directors of a newly formed company established to provide digital PCS service.

4. Q. Which entity is the applicant in this docket?
- A. Gridley Communications, Inc. ("Gridley Communications").
5. Q. What authority does Gridley Communications currently possess?
- A. What is now Gridley Communications is currently authorized to provide inter-Market Service Area ("MSA") and intra-MSA interexchange telecommunications service, pursuant to the Commission's order in Docket 95-0585. The Certificate granted in Docket No. 95-0585 was granted in the name of Gridley Subsidiary Two, Inc., while the holding company was originally to be named Gridley Communications, Inc. Subsequently the Company decided to change the name of the holding company to Gridley Enterprises, Inc. and to call the interexchange carrier affiliate Gridley Communications, Inc. The interexchange carrier corporation was created under the name of Gridley Communications, Inc., rather than as Gridley Subsidiary Two, Inc. The Commission was advised of the name change by letter dated May 22, 1996 to the Commission's Chief Clerk and Gridley Communications, Inc. has been recognized as the entity possessing the Certificate granted in docket No. 95-0585 since that time. These facts were specifically recognized by the Commission in its September 23, 1998, Order in Docket No. 98-0486.
6. Q. What authority is Gridley Communications seeking in this case?
- A. Gridley Communications seeks to expand its existing service authority to include competitive local exchange telecommunications service authority. We are requesting authority to provide resold and facilities-based local exchange telecommunications services within and throughout the State of Illinois on a state-wide basis.
7. Q. What prompted Gridley Communications to take steps to get into the competitive local exchange business?
- A. The Gridley Enterprises, Inc., group of companies is trying to position itself for success in light of the dramatic changes underway in the telecommunications industry. One way to do that is by taking advantage of new business opportunities in this new environment, such as competitive local exchange services.

8. Q. Where does Gridley Communications propose to provide competitive local exchange services?

A. We propose to provide resold and facilities-based competitive local exchange telecommunications services within the State of Illinois, provided however, Gridley Communications will not provide local exchange service to customers within the service area of Gridley Telephone Company except to the extent that the pay phones of Gridley Communications would be considered local exchange service. We also recognize that Gridley Communications could not provide competitive local exchange service in the certificated service area of any other rural telephone company under the Federal Telecommunications Act of 1996 without additional hearings before and findings by this Commission, and no such service is contemplated at this time.

9. Q. How does Gridley Communications propose to provide competitive local exchange services?

A. Competitive local exchange services may be provided through any of the following three methods:

- 1) purchase of bundled services for resale,
- 2) purchase of unbundled network elements, and/or
- 3) building facilities.

Gridley Communications has the wherewithal to provide competitive local exchange services under any of the three scenarios or combinations of the three and plans to use the most efficient and economical method on a case by case basis. Gridley Communications plans to use a conservative approach to enter the competitive local exchange market.

10. Q. What type of facilities will be required for Gridley Communications to provide competitive local exchange telecommunications service and how will those facilities interface and be interconnected with the facilities of other carriers?

A. Construction of new facilities is not necessarily required, such as if we resell bundled services. We will negotiate with other carriers to ensure that existing and/or new facilities interface and are interconnected with the facilities of other carriers.

11. Q. Will the provision of competitive local exchange services by Gridley Communications require any additional facilities to be acquired or constructed?

- A. No. As stated above, new facilities are not necessarily required for Gridley Communications to provide competitive local exchange service. Gridley Communications will build new facilities as needed.
12. Q. Will the provision of competitive local exchange services by Gridley Communications require any agreements with other telecommunications carriers?
- A. Yes. Agreements will need to be entered into with the incumbent local exchange carrier for each exchange where we provide competitive local service. These agreements will conform with existing and evolving industry standards and Commission orders and will be comparable to the arrangements currently maintained with other local exchange carriers.
13. Q. What personnel will be required for Gridley Communications to provide competitive local exchange services?
- A. Initially, we plan to use existing personnel to provide competitive local exchange service and to contract out as necessary.
14. Q. Will the provision of competitive local exchange services by Gridley Communications require any additional personnel to be hired?
- A. We will hire new personnel as growth warrants.
15. Q. Do you have projections of the estimated expenses and revenues associated with the provision of competitive local exchange services by Gridley Communications?
- A. We have some very general projections. Based on these projections we believe this enterprise will be profitable.
16. Q. Based upon the projections you just mentioned, will Gridley Communications have the financial resources to provide the proposed services?
- A. Yes. Gridley Communications will have the financial resources and ability to provide local exchange telecommunications services. If necessary, Gridley Enterprises, Inc., will provide financial resources for Gridley Communications to provide local exchange telecommunications services.

17. Q. Does Gridley Enterprises, Inc., have the financial resources to provide funding for Gridley Communications' competitive local exchange services business?
- A. Yes.
18. Q. I show you a document which has been marked as Applicant's Exhibit No. 1 and ask if you can identify the document?
- A. Yes. Applicant's Exhibit No. 1 is a copy of Gridley Enterprises, Inc., and its subsidiaries' consolidated financial statements for the years ended December 31, 1997 and 1998, including a consolidating financial statement which includes Gridley Communications. The Consolidated Balance Sheet which shows Gridley Communications specific information for 1998 is found on pages 13 and 14, and the Consolidated Statement of Operations for 1998 is found on page 16. These statements show that Gridley Communications has the financial resources to fund the competitive local exchange telecommunications business. These statements also show that Gridley Enterprises, Inc. has the financial resources to provide additional funding for Gridley Communications, if necessary.
19. Q. Will Gridley Communications have the technical and managerial resources to provide the proposed services?
- A. Yes. The members of the Board of Directors of Gridley Communications have extensive experience in both the management and technical aspects of the telecommunications industry. We have a staff of trained professionals at Gridley Enterprises, Inc. who will be available to provide support for the competitive local exchange business of Gridley Communications.
20. Q. Will you yourself be involved in the local exchange operations of Gridley Communications?
- A. Yes.
21. Q. Please identify and briefly describe the background and experience of the key employees, other than yourself, who will be directly involved in the competitive local exchange operations of Gridley Communications.
- A. William E. Flesch is our General Manager. He graduated from the University of Missouri in 1980 with a Bachelor of Science degree in Business Administration.

Upon graduation he became employed by Contel Corporation and worked there for ten years. His experience at Contel involved accounting, regulatory reporting, budgeting, cost study preparation and access rate development. In 1990, he became employed by Citizens Utilities Company, which at that time was a diversified utilities company based in Stamford, Connecticut, and served as Budget Manager for their Arizona telephone operations and subsequently as Regulatory Manager for their combined California/Arizona telephone operations. In 1992, he was hired by GVNW Inc., Management, a regional telecommunications consulting firm, and served that company for six years in the positions of Management Consultant and Senior Consultant. He had direct or supervisory responsibility for over 30 clients providing telecommunications services in four states, the majority of which were in Illinois. He assisted the clients with projects encompassing cost study production, regulatory compliance and reporting, business and strategic plan development, and tariff filings. In 1998 he accepted a position with Gridley Telephone Company. He has responsibility for virtually all day-to-day activities of the company and its affiliates. These responsibilities include, but are not limited to, plant operations, technology deployment, customer service, regulatory compliance, planning and accounting.

22. Q. How will Gridley Communications bill for its services?
- A. Gridley Telephone Co. will provide billing under an agreement to be made with Gridley Communications.
23. Q. How will billing disputes be handled?
- A. Disputes will be handled by Gridley Communications staff. Customers who indicate nonacceptance of the decision of supervisory personnel, will be advised of the telephone number and address of the Consumer Affairs Division of the Illinois Commerce Commission.
24. Q. Are you aware of and will Gridley Communications comply with 83 Illinois Administrative Code Part 735 regarding establishment of credit, billing, deposits, termination of service and issuance of telephone directories?
- A. Yes, we are aware of the Commission's rules in this regard and are following them now for the local telephone operations of Gridley Telephone Company. We will comply with 83 Illinois Administrative Code Part 735 for the local exchange operations of Gridley Communications with one exception. We are seeking a variance from part 735.180 regarding issuance of telephone directors for Gridley Communications' local exchange operations.

25. Q. How will Gridley Communications provide a directory?
- A. It will be provided by contract with the incumbent LEC for local exchange directory service and therefore Gridley Communications requests a variance from 735.180 of 83 Ill. Adm. Code.
26. Q. How will trouble reports be handled by Gridley Communications?
- A. Trouble reports will be handled either by the incumbent LEC(s) or by Gridley Telephone Company staff under the agreement to be entered into between Gridley Communications and Gridley Enterprises, Inc. These matters will be handled in the same manner that they are handled by those companies today with other customers.
27. Q. Who will be the ICC Staff's contact at Gridley Communications for consumer complaints?
- A. William E. Flesch will be the contact for consumer complaints.
28. Q. Are you aware of and will Gridley Communications comply with 83 Illinois Administrative Code Part 705 regarding preservation of records of telephone utilities?
- A. Yes, we are aware of the Commission's rules in this regard and are following them now for the local telephone operations of Gridley Telephone Company. We will comply with 83 Illinois Administrative Code Part 705 for the local exchange operations of Gridley Communications.
29. Q. Are you aware of and will Gridley Communications comply with 83 Illinois Administrative Code Parts 720 and 725 regarding 9-1-1 implementation reports and standards of service for 9-1-1 emergency systems?
- A. Yes, we are aware of the Commission's rules in this regard and are following them now for the local telephone operations of Gridley Telephone Company. We will comply with 83 Illinois Administrative Code Parts 720 and 725 for the local exchange operations of Gridley Communications.

30. Q. How will emergency calls be handled?
- A. Emergency calls will be handled either by the incumbent LEC(s) or by Gridley Telephone Company staff under the agreement to be entered into between Gridley Communications and Gridley Enterprises, Inc. These matters will be handled in the same manner that they are handled by those companies today with other customers.
31. Q. How will 9-1-1 work if Gridley Communications is granted a Certificate for local exchange service.
- A. Gridley Communications will contract with the incumbent LEC to provide 9-1-1 service and inter-machine trunk lines will connect Gridley Communications to the incumbent LEC(s) switch. Gridley Communications will file tariffs for all services and charges associated with 9-1-1. Gridley Communications will coordinate with the incumbent LEC(s) and local 9-1-1 system to minimize obstacles and provide transparent service to end users. Gridley Communications will minimize the call setup time and any costs associated with the transaction will be handled by agreement with the incumbent LEC currently providing switching services. Transition costs may be charged to the 9-1-1 systems or recouped through tariff charges. Gridley Communications will coordinate procedures with the incumbent LEC for the passing of 9-1-1 surcharge collections to the local 9-1-1 system. Gridley Communications will not pass any network charges to any of the 9-1-1 systems and will endeavor to provide the same quality of 9-1-1 service offered by the incumbent LEC or better. Gridley Communications will insure that call boxes are accessible to 911 systems or file for a waiver of Part 725.500(o) and 725.620(b). Gridley Communications anticipates that the 9-1-1 database will be updated on a daily basis as customers are added or subtracted.
32. Q. Who will be the ICC Staff's contact at Gridley Communications for 9-1-1 issues?
- A. William E. Flesch will be the contact at (309) 747-2221, fax number (309) 747-2888.
33. Q. Is Gridley Communications accounting for the Illinois Gross Receipt Tax?
- A. Yes. The accounting system currently in use by Gridley Communications provides detailed data for the preparation of the Illinois Gross Receipt Tax. If granted a Certificate in this docket, Gridley Communications will establish a new account for local exchange service and will keep separate accounts for intrastate and interstate receipts. Gridley Communications intends to sign agreements with the primary local exchange carrier which will provide for detailed accounting of services including

those from which a municipal tax or infrastructure maintenance fee may be payable. Gridley Communications will maintain its records in sufficient detail to facilitate the calculation of all applicable taxes.

34. Q. Do unusual or peculiar circumstances exist that warrant a departure from the procedures prescribed in 83 Illinois Administrative Code Part 710, Uniform System of Accounts?
- A. Yes. Gridley Communications is a small company and compliance with Part 710 would cause additional expense. In the present competitive environment, other carriers similarly situated would have an unfair advantage. We have therefore requested a waiver or variance of the requirements of Code Part 710.
35. Q. How will the continued use of Gridley Communications' accounting system maintain uniformity among telecommunications companies?
- A. Uniformity is maintained because Gridley Communications follows generally accepted accounting principles comparable to other competitive carriers. Results on Gridley Communications' financial statements will be comparable from period to period because it follows accounting concepts, standards, principals, practices and procedures which assure that their statements are relevant and reliable.
36. Q. Are you asking for a variance or waiver of certain parts of 83 Illinois Administrative Code?
- A. Yes. We are asking for waiver of Part 710 and a variance to Section 735.180 of Part 735 for facilities based local exchange service. These waivers are necessary so as not to place Gridley Communications at a competitive disadvantage. Waiver of these regulations by this Commission would reduce the economic burdens of regulation on Gridley Communications and would not be inconsistent with the law or the purposes and policies of the Public Utilities Act.
37. Q. Will Gridley Communications cooperate with the Universal Telephone Assistance Corporation (UTAC) and the Illinois Telecommunications Access Corporation (ITAC)?
- A. Yes. Gridley Communications will sign and return the membership forms to UTAC and ITAC.

38. Q. Will Gridley Communications participate in programs for the hearing impaired?
- A. Yes. Gridley Communications will insure collection and remittance to ITAC of the line charge amount collected monthly from all telephone subscribers for the TTY Equipment Loan Program and Telecommunications Relay Service and will distinguish between resale and facilities based service.
39. Q. How will Gridley Communications support the Universal Telephone Service Assistance Program (UTSAP)?
- A. The Company will solicit, collect, and remit to UTAC the voluntary contributions collected monthly from its telephone subscribers to support UTSAP.
40. Q. How will Gridley Communications support the Lifeline Program?
- A. Gridley Communications will offer the supplemental waivers on any installation charge for the Lifeline Program.
41. Q. Are you aware of and will Gridley Communications comply with 83 Illinois Administrative Code Parts 755, 756 and 757 regarding telecommunications access for persons with disabilities, telecommunications relay service and telephone assistance programs?
- A. Yes.
42. Q. Are you aware of and will Gridley Communications comply with 83 Illinois Administrative Code Part 772 regarding pay-per-call services?
- A. Yes.
43. Q. What is Gridley Communications' policy on "slamming?"
- A. Gridley Communications will not permit slamming of local exchange or interexchange customers. No slamming complaints have ever been made against Gridley Communications. Gridley Communications will not change any customer's service unless it has a request in writing or with proper verification as required by law.

44. Q. How will Gridley Communications solicit local exchange customers?
- A. Gridley Communications plans an aggressive advertising campaign as well as telephone solicitation to both business and residential customers. Gridley Communications may employ professional telemarketers, but will insist that they follow Gridley Communications' policy on slamming.
45. Q. Does this conclude your prefiled direct testimony?
- A. Yes.

EXHIBIT 1

Gridley Enterprises, Inc. and Subsidiaries
Gridley, Illinois

Consolidated Financial Statements and
Consolidating Information
Years Ended December 31, 1998 and 1997

Gridley Enterprises, Inc. and Subsidiaries
Gridley, Illinois

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Kiesling Associates LLP

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Directors
Gridley Enterprises, Inc.
Gridley, Illinois 61744

We have audited the accompanying consolidated balance sheets of Gridley Enterprises, Inc., (an Illinois corporation) and subsidiaries, as of December 31, 1998 and 1997, and the related consolidated statements of income, retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gridley Enterprises, Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Kiesling Associates LLP

Springfield, Illinois
January 15, 1999

Gridley Enterprises, Inc. and Subsidiaries
Gridley, Illinois

Consolidated Balance Sheets

	<u>December 31,</u>	
	<u>1998</u>	<u>1997</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,404,027	\$ 834,535
Temporary investments	214,484	503,918
Accounts receivable:		
Due from customers	20,557	28,358
Unbilled interexchange service	43,526	40,710
Interexchange carriers	180,124	221,801
Other	58,554	35,641
Interest receivable	14,691	11,399
Inventories, at average cost:		
Plant materials and supplies	52,735	39,953
Prepaid income taxes	17,928	-
Other prepayments	38,657	30,164
	<u>2,045,283</u>	<u>1,746,479</u>
NONCURRENT ASSETS		
Cash value of life insurance	83,696	85,423
Cellular partnership investments	214,848	214,848
Other investments	204,289	66,789
Deferred income taxes	123,992	29,734
Unamortized debt issuance expense	3,756	4,254
	<u>630,581</u>	<u>401,048</u>
PROPERTY AND EQUIPMENT		
Telephone plant in service	4,856,706	4,585,345
Other property	71,621	71,621
	<u>4,928,327</u>	<u>4,656,966</u>
Less accumulated depreciation	<u>2,702,650</u>	<u>2,297,132</u>
	<u>2,225,677</u>	<u>2,359,834</u>
 TOTAL ASSETS	 <u>\$ 4,901,541</u>	 <u>\$ 4,507,361</u>

	December 31,	
	1998	1997
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable:		
Interexchange carriers	\$ 10,977	\$ 14,131
Other	181,803	148,089
Current portion of long-term debt	191,000	69,300
Accrued income taxes	-	61,810
Accrued general taxes	11,906	10,332
Other	20,748	1,826
	<u>416,434</u>	<u>305,488</u>
LONG-TERM DEBT, less current portion	<u>2,986,107</u>	<u>427,345</u>
NONCURRENT DEFERRED CREDITS		
Deferred compensation	353,504	327,318
Deferred investment tax credit	22,454	29,939
Deferred regulatory liability	14,194	18,927
	<u>390,152</u>	<u>376,184</u>
STOCKHOLDERS' EQUITY		
Common stock - \$100 par value, 266 shares authorized; 172 and 266 shares issued and outstanding, respectively	17,200	26,600
Retained earnings	1,091,648	3,371,744
	<u>1,108,848</u>	<u>3,398,344</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>4,901,541</u>	\$ <u>4,507,361</u>

The accompanying notes are an integral part of these financial statements.

Gridley Enterprises, Inc. and Subsidiaries
Gridley, Illinois

Consolidated Statements of Income

	<u>Years Ended December 31,</u>	
	<u>1998</u>	<u>1997</u>
OPERATING REVENUES		
Local network services	\$ 199,747	\$ 179,625
Interstate network access services	827,493	749,485
Intrastate network access services	1,154,780	1,115,907
Long distance services	351,107	335,920
Miscellaneous services	147,240	125,333
	<u>2,680,367</u>	<u>2,506,270</u>
OPERATING EXPENSES		
Plant specific operations	408,789	335,690
Plant nonspecific operations	237,090	224,168
Depreciation	434,581	395,565
Customer operations	266,722	207,018
Corporate operations	739,385	533,976
General taxes	13,088	37,509
	<u>2,099,655</u>	<u>1,733,926</u>
OPERATING INCOME	<u>580,712</u>	<u>772,344</u>
OTHER INCOME (EXPENSE)		
Interest and other income	108,563	107,489
Interest expense	(69,866)	(34,201)
Other expenses	(8,312)	(29,367)
	<u>30,385</u>	<u>43,921</u>
INCOME BEFORE INCOME TAX EXPENSE	611,097	816,265
INCOME TAXES	<u>228,244</u>	<u>266,312</u>
NET INCOME	<u>\$ 382,853</u>	<u>\$ 549,953</u>

The accompanying notes are an integral part of these financial statements.

Gridley Enterprises, Inc. and Subsidiaries
Gridley, Illinois

Statements of Retained Earnings

	<u>Years Ended December 31,</u>	
	<u>1998</u>	<u>1997</u>
Balance, Beginning of Year	\$ 3,371,744	\$ 2,832,963
 Add - Net Income for Year	 382,853	 549,953
 Deduct : Cost of 94 shares of common stock in excess of par value (\$ 9,400)	 (2,650,978)	 -
 Dividends paid in cash	 <u>(11,971)</u>	 <u>(11,172)</u>
 Balance, End of Year	 \$ <u>1,091,648</u>	 \$ <u>3,371,744</u>

The accompanying notes are an integral part of these financial statements.

Gridley Enterprises, Inc. and Subsidiaries
Gridley, Illinois

Statements of Cash Flows

	<u>Years Ended December 31,</u>	
	<u>1998</u>	<u>1997</u>
Increase (Decrease) in Cash and Cash Equivalents		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 382,853	\$ 549,953
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	435,079	396,063
Deferred income taxes	(98,991)	(124,439)
Amortization of investment tax credits	(7,485)	(6,800)
Deferred compensation	26,186	38,088
(Increase) Decrease in cash value of life insurance	1,727	(11,383)
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	20,457	(12,973)
Materials and supplies	(12,782)	15,371
Prepayments	(26,421)	7,410
Increase (Decrease) in:		
Accounts payable	30,560	94,752
Accrued taxes	(60,236)	(41,283)
Other	18,922	(3,720)
Net cash provided by operating activities	<u>709,869</u>	<u>901,039</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(300,424)	(328,891)
Proceeds from sale of temporary investments	459,750	327,599
Purchase of temporary investments	(170,316)	(513,170)
Salvage of plant retired	-	7,486
Net cash used in financing activities	<u>(10,990)</u>	<u>(506,976)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(11,971)	(11,172)
Proceeds from long-term debt	2,612,500	-
Repayment of long-term debt	(69,538)	(69,176)
Purchase of 94 shares of company's common stock	<u>(2,660,378)</u>	<u>-</u>
Net cash used in financing activities	<u>(129,387)</u>	<u>(80,348)</u>
Net Increase in Cash and Cash Equivalents	569,492	313,715
Cash and Cash Equivalents at Beginning of Year	<u>834,535</u>	<u>520,820</u>
Cash and Cash Equivalents at End of Year	\$ <u>1,404,027</u>	\$ <u>834,535</u>

The accompanying notes are an integral part of these financial statements.

Gridley Enterprises, Inc. and Subsidiaries
Gridley, Illinois

Notes to Consolidated Financial Statements
December 31, 1998 and 1997

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Gridley Enterprises, Inc., through its wholly-owned subsidiaries, is a provider of telecommunications exchange, local access services, and long distance services to customers located in Gridley, Illinois and surrounding rural areas.

The accounting policies of Gridley Enterprises, Inc. and its subsidiaries conform to generally accepted accounting principles. Management uses estimates and assumptions in preparing its consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent revenues and expenses. Telecommunications operations reflect practices appropriate to the telecommunications industry. The accounting records of the telecommunications company are maintained in accordance with the Uniform System of Accounts for Class A and B Telephone Companies prescribed by the Illinois Commerce Commission and, as applicable, by the Federal Communications Commission.

Principles of Consolidation

The consolidated financial statements include the accounts of Gridley Enterprises, Inc. and its wholly-owned subsidiaries, Gridley Telephone Co., Gridley Cellular, Inc., and Gridley Communications, Inc. (herein referred to as "the Company"). All material intercompany transactions have been eliminated in consolidation.

Property and Equipment

Telecommunications plant is capitalized at original cost, including the capitalized cost of salaries and wages, materials, certain payroll taxes, and employee benefits and interest incurred during the construction period.

The Company provides for depreciation for financial reporting purposes on the straight-line method by the application of rates based on the estimated service lives of the various classes of depreciable property as approved by the Board of Directors and, for Gridley Telephone Co., subject to Illinois Commerce Commission review in any future earnings proceedings before it.

Renewals and betterments of units of telecommunications property are charged to telecommunications plant in service. When telecommunications plant is retired, its cost is removed from the asset account and charged against accumulated depreciation together with removal cost less any salvage realized. No gains or losses are recognized in connection with routine retirements of depreciable telecommunications property. Repairs and renewals of minor items of telecommunications property are included in plant specific operations expense.

Repairs of other property, as well as renewals of minor items, are charged to plant specific operations expense. A gain or loss is recognized when other property is sold or retired.

Gridley Enterprises, Inc. and Subsidiaries
Gridley, Illinois

Notes to Consolidated Financial Statements
December 31, 1998 and 1997

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Gridley Enterprises, Inc. files consolidated income tax returns with its subsidiaries. For individual company financial reporting purposes, income taxes are presented by apportioning the consolidated tax provision as if each member of the consolidated group were a separate taxpayer.

Income taxes are accounted for using a liability method and provide for the tax effects of transactions reported in the consolidated financial statements including both taxes currently due and deferred. Deferred taxes are adjusted to reflect deferred tax consequences at current enacted tax rates. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred taxes arise from differences between the basis of property and equipment, deferred compensation and investments in cellular partnerships. The deferred tax assets and liabilities represent future tax return consequences of those differences, which will be either taxable or deductible, when the assets and liabilities are recovered or settled.

Investment tax credits (ITC), which were deferred prior to the Tax Reform Act of 1986, are being amortized over the regulatory life of the plant which produced the ITC.

Revenue Recognition

The Company recognizes revenues when earned regardless of the period in which they are billed. The Company is required to provide service to subscribers within its defined service territory.

Local network service revenues are recognized over the period a subscriber is connected to the telephone network.

Revenues relating to the provision of interexchange access services to customers are derived, in part, from tariffed access charges to toll service providers (interexchange carriers), and in part from sharing in interstate and intrastate pools.

Interstate revenues are determined in accordance with cost separation procedures. The Company is compensated for intrastate access under access charge procedures prescribed by the Illinois Commerce Commission.

Other revenues include contractually determined arrangements for the provision of billing and collecting services and are recognized in the period when the services are performed.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Gridley Enterprises, Inc. and Subsidiaries
Gridley, Illinois

Notes to Consolidated Financial Statements
December 31, 1998 and 1997

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$16,599 and \$16,401 in 1998 and 1997, respectively.

Reclassifications

Certain reclassifications have been made to the 1997 consolidated financial statements to conform with the 1998 presentation.

Note 2. PROPERTY AND EQUIPMENT

Property and equipment includes the following:

	<u>1998</u>	<u>1997</u>
Telecommunications Plant in Service:		
Land	\$ 33,354	\$ 33,354
Buildings	605,502	605,502
Switching equipment	1,787,707	1,738,139
Outside plant	1,390,832	1,380,777
Furniture and office equipment	652,617	434,649
Vehicles and work equipment	<u>386,694</u>	<u>392,924</u>
	<u>4,856,706</u>	<u>4,585,345</u>
Other Property:		
Customer premises equipment	<u>71,621</u>	<u>71,621</u>
Total property and equipment	<u>\$ 4,928,327</u>	<u>\$ 4,656,966</u>

Depreciation on depreciable property resulted in composite rates of 8.78% and 8.76% for 1998 and 1997, respectively, based on the average cost of all depreciable property in service.

Note 3. LONG-TERM DEBT

Long-term debt consists of:

	<u>1998</u>	<u>1997</u>
RUS Mortgage notes - 2%	\$ 173,416	\$ 194,698
RTB Mortgage notes - 8%	145,605	152,814
RTB Mortgage note - 10%	108,086	149,133
RTFC Mortgage note - 5.5%	250,000	-
RTFC Mortgage note - 6%	<u>2,500,000</u>	<u>-</u>
Total long-term debt	3,177,107	496,645
Less current portion	<u>191,000</u>	<u>69,300</u>
	<u>\$ 2,986,107</u>	<u>\$ 427,345</u>

Gridley Enterprises, Inc. and Subsidiaries
Gridley, Illinois

Notes to Consolidated Financial Statements
December 31, 1998 and 1997

Note 3. LONG-TERM DEBT (Continued)

The annual requirements for principal payments on long-term debt for the next five years are as follows:

1999	\$ 191,000
2000	204,000
2001	217,900
2002	232,800
2003	249,000

Substantially all assets of Gridley Telephone Co. are pledged as security for the long-term debt under certain loan agreements with the Rural Utilities Service (RUS) and the Rural Telephone Bank (RTB). These mortgage notes are to be repaid in equal monthly and quarterly installments covering principal and interest expiring during 2010.

Substantially all assets of Gridley Enterprises, Inc. are pledged as security for the long-term debt under certain loan agreements with the Rural Telephone Finance Cooperative (RTFC). These mortgage notes are to be repaid in equal quarterly installments covering principal and interest beginning February 1999, and expiring during 2013.

To obtain financing from the RTFC, the Company was required to purchase Subordinated Capital Certificates (SCC's) in an amount equal to 5% of the loan amount. Beginning in May 2000, the SCC's will be reduced on an annual basis to be approximately 5% of then outstanding principal balance of the loan.

Gridley Telephone Co.'s dividend payments to Gridley Enterprises, Inc. are restricted by the mortgage to the United States of America, underlying the RUS and RTB notes, except as might be specifically authorized in writing in advance by the RUS and RTB note-holders.

The security and loan agreements underlying the RTFC notes contain certain restrictions on distributions to stockholders, investment in, or loans to others, and payment of management fees or an increase in management fees. The Company is restricted from making any distributions, except as might be specifically authorized in writing in advance by the RTFC unless the Company maintains a Current Ratio of not less than 1.25 and a minimum net worth exceeding 40%. If the Company's net worth is less than 40% but greater than 25%, the Company may distribute up to 25% of the prior year's cash margins (as defined within the agreements).

All funds available under the RUS, RTB and RTFC approved loans have been advanced.

Cash paid for interest on long-term debt during 1998 and 1997 totaled \$54,384 and \$38,568, respectively.

Gridley Enterprises, Inc. and Subsidiaries
Gridley, Illinois

Notes to Consolidated Financial Statements
December 31, 1998 and 1997

Note 4. EMPLOYEE BENEFITS

The Company has a defined contribution pension plan covering all full-time employees, who meet certain age and length of service requirements, that provides for pension and death benefits.

The Company's contribution is based upon each eligible employee's compensation. The Company's policy is to fund pension costs accrued. Pension costs expensed and capitalized for the year ended December 31, 1998 and 1997, were \$143,990 and \$107,799, respectively.

Note 5. INCOME TAXES

Income taxes reflected in the Consolidated Statement of Income consist of the following:

	<u>1998</u>	<u>1997</u>
Statements of Income:		
Federal income taxes:		
Current tax expense	\$ 273,798	\$ 322,907
Deferred tax benefit	(80,667)	(101,399)
Amortization of investment tax credits	(7,485)	(6,800)
State income taxes:		
Current tax expense	60,922	74,644
Deferred tax benefit	(18,324)	(23,040)
	<u>\$ 228,244</u>	<u>\$ 266,312</u>

Cash paid for income taxes during 1998 and 1997 totaled \$250,000 and \$262,570, respectively.

Deferred long-term federal and state tax assets and liabilities are summarized as follows:

Total Deferred Tax Liabilities	\$ (24,961)	\$ (119,186)
Total Deferred Tax Assets	<u>148,953</u>	<u>148,920</u>
Net Deferred Tax Assets	<u>\$ 123,992</u>	<u>\$ 29,734</u>

The tax provision differs from the tax expense that would result from applying the federal statutory rates to income before income taxes because of the deductibility of state income taxes, differences between book and tax expenses, cellular partnership K-1 income and losses and amortization of investment tax credits.

The regulatory liability at December 31, 1998 and 1997 of \$14,194 and \$18,927, respectively, is associated with unamortized investment tax credits and is being amortized in the same manner as the underlying investment tax credits.

Gridley Enterprises, Inc. and Subsidiaries
Gridley, Illinois

Notes to Consolidated Financial Statements
December 31, 1998 and 1997

Note 6. INVESTMENTS

Gridley Cellular, Inc. has a 6.67% interest in partnerships which provide cellular services in Illinois RSA #2. These investments are accounted for by the cost method. Gridley Cellular's proportionate share of undistributed income not included in the statement of income was approximately \$118,900 and \$131,100 for 1998 and 1997, respectively. Gridley Cellular's proportionate share of all such undistributed income since inception of operations was \$103,000 at December 31, 1998.

Gridley Enterprises, Inc. owns 12.5% of Illinois Valley Cellular, Inc. (IVC) which is accounted for by the cost method (\$7,000). IVC provides cellular switching services to the Illinois RSA #2 partnerships.

Gridley Communications, Inc. has a \$5,100 investment in Associated Networks Partners, Inc. (ANPI) accounted for by the cost method. This investment entitles/obligates Gridley Communications, Inc. to purchase interexchange access through ANPI. Gridley Communications, Inc. resells this access as long distance communications services to its customers.

Investments include \$43,650 at December 31, 1998 and 1997 related to RTB Class B stock. Such RTB stock was purchased from the RTB as a condition of obtaining long-term financing. Holders of RTB Class B stock are entitled to patronage dividends in the form of additional Class B stock. However, such stock must be held until the related RTB loan is repaid and may be redeemed only after all shares of Class A stock have been retired and at the discretion of the Board of Directors of RTB.

Other investments consist of equity securities carried at cost. No readily available market exists for these securities.

Note 7. RELATED PARTY TRANSACTIONS

The Company has entered into an agreement with Gridley Cable, Inc. which is owned by an officer/shareholder of the Company. The agreement provides for the use of the Company's personnel on a cost plus basis and for renting its equipment on a cost per hour basis as prescribed by the Company. Total charges for personnel and equipment for the years ended December 31, 1998 and 1997 amounted to \$32,060 and \$30,577, respectively. In addition, the agreement provides for the renting of office space at the Company premises for \$100 per month. This agreement has been approved by the Illinois Commerce Commission.

Note 8. CONCENTRATIONS OF CREDIT RISK

The Company is a provider of telecommunications exchange and local access services in a service area located in Gridley, Illinois and surrounding rural area. The Company grants credit to local service customers, all of whom are located in the service area, and to telecommunications interexchange carriers which provide toll service to the Company's local service customers.

Gridley Enterprises, Inc. and Subsidiaries
Gridley, Illinois

Notes to Consolidated Financial Statements
December 31, 1998 and 1997

Note 8. CONCENTRATIONS OF CREDIT RISK (Continued)

Customers' accounting for more than 10% of revenues in of either the year's 1998 or 1997, are AT&T at 8.66% and 16.42% and MCI at 11.55% and 27.24%, respectively. The Company may be subject to competition for telecommunications services including exchange services offered by other providers in its service area.

For the year 1998, the Company received 40% of its revenues from assistance provided by the Federal and Illinois Universal Service and other state assistance funds. The manner in which Universal Service and other assistance funds are determined for qualifying organizations is currently under review as a result of the Telecommunications Act of 1996.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such account and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 9. DEFERRED COMPENSATION

The Company has entered into a deferred compensation plan for a key employee. The plan provides for retirement income or pre retirement death benefit for service previously provided or to be provided by the covered employee. The accrued deferred compensation liability at December 31, 1998 and 1997 is \$353,504 and \$327,318, respectively.

Note 10. COMMON STOCK PURCHASE

During 1998, the Company entered into an agreement to purchase 106 shares of its common stock at a cost of \$28,301.89 per share. The transaction was to be completed in two steps. In October 1998, 94 shares were purchased at a total cost of \$2,660,378. The par value of the 94 shares of stock (\$9,400) was charged against the common stock issued account with the remaining amount (\$2,650,978) charged against retained earnings.

The remaining 12 shares of stock are to be purchased on February 1, 1999 at a total cost of \$339,622.



Kiesling Associates LLP

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report on Consolidating Information

To the Board of Directors
Gridley Enterprises, Inc.
Gridley, Illinois 61744

Our report on our audits of the consolidated financial statements of Gridley Enterprises, Inc. and subsidiaries for 1998 and 1997, appears on Page 1. Those audits were made for the purposes of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in Schedules I and II is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Kiesling Associates LLP

Springfield, Illinois
January 15, 1999

Consolidating Balance Sheet - December 31, 1998

	Gridley Enterprises, Inc.	Gridley Telephone Co.	Gridley Communications Inc.	Gridley Cellular, Inc.	Eliminating Entries	Consolidated Totals
CURRENT ASSETS						
Cash and cash equivalents	\$ 387,601	\$ 832,892	\$ 154,402	\$ 29,132	\$ -	\$ 1,404,027
Temporary investments	107,082	107,402	-	-	-	214,484
Accounts receivable:						
Due from customers	-	20,557	-	-	-	20,557
Unbilled interexchange services	-	43,526	-	-	-	43,526
Interexchange carriers	-	180,124	-	-	-	180,124
Affiliated companies	224,494	103,181	29,114	-	(356,789)	-
Other	-	18,554	-	40,000	-	58,554
Interest receivable	8,195	6,496	-	-	-	14,691
Inventories, at average cost:						
Plant materials and supplies	-	52,735	-	-	-	52,735
Prepaid income taxes	17,928	(19,107)	(43,797)	(58,852)	121,756	17,928
Other prepayments	-	23,495	15,162	-	-	38,657
	<u>745,300</u>	<u>1,369,855</u>	<u>154,881</u>	<u>10,280</u>	<u>(235,033)</u>	<u>2,045,283</u>
NONCURRENT ASSETS						
Cash value of life insurance	-	83,696	-	-	-	83,696
Investments - Affiliated companies	3,006,845	-	-	-	(3,006,845)	-
Investments - Cellular partnerships	-	-	-	214,848	-	214,848
Investments - Other	144,500	54,689	5,100	-	-	204,289
Deferred income taxes	-	148,953	-	(24,961)	-	123,992
Unamortized debt expense	-	3,756	-	-	-	3,756
	<u>3,151,345</u>	<u>291,094</u>	<u>5,100</u>	<u>189,887</u>	<u>(3,006,845)</u>	<u>630,581</u>
PROPERTY AND EQUIPMENT						
Telecommunications plant in service	-	4,856,706	-	-	-	4,856,706
Other property	-	71,621	-	-	-	71,621
	-	4,928,327	-	-	-	4,928,327
Less accumulated depreciation	-	2,702,650	-	-	-	2,702,650
	-	<u>2,225,677</u>	-	-	-	<u>2,225,677</u>
TOTAL ASSETS	<u>\$ 3,896,645</u>	<u>\$ 3,886,626</u>	<u>\$ 159,981</u>	<u>\$ 200,167</u>	<u>\$ (3,241,878)</u>	<u>\$ 4,901,541</u>

	Gridley Enterprises, Inc.	Gridley Telephone Co.	Gridley Communications Inc.	Gridley Cellular, Inc.	Eliminating Entries	Consolidated Totals
CURRENT LIABILITIES						
Accounts payable:						
Interexchange carriers	\$ -	\$ 10,977	\$ -	\$ -	\$ -	\$ 10,977
Affiliates	23,693	129,114	65,411	189,187	(407,405)	-
Other	-	181,690	-	113	-	181,803
Current portion of long-term debt	116,200	74,800	-	-	-	191,000
Accrued income taxes	-	-	-	-	-	-
Other accrued taxes	-	11,624	282	-	-	11,906
Other	14,103	6,645	-	-	-	20,748
	<u>153,996</u>	<u>414,850</u>	<u>65,693</u>	<u>189,300</u>	<u>(407,405)</u>	<u>416,434</u>
 LONG-TERM DEBT, less current portion	 <u>2,633,800</u>	 <u>352,307</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>2,986,107</u>
 NONCURRENT DEFERRED CHARGES						
Deferred compensation	-	353,504	-	-	-	353,504
Deferred investment tax credit	-	22,454	-	-	-	22,454
Deferred regulatory liability	-	14,194	-	-	-	14,194
	<u>-</u>	<u>390,152</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>390,152</u>
 STOCKHOLDER'S EQUITY						
Common stock	17,200	26,600	25,000	1,000	(52,600)	17,200
Retained earnings	1,091,648	2,702,718	69,288	9,867	(2,781,873)	1,091,648
	<u>1,108,848</u>	<u>2,729,318</u>	<u>94,288</u>	<u>10,867</u>	<u>(2,834,473)</u>	<u>1,108,848</u>
 TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY						
	<u>\$ 3,896,644</u>	<u>\$ 3,886,627</u>	<u>\$ 159,981</u>	<u>\$ 200,167</u>	<u>\$ (3,241,878)</u>	<u>\$ 4,901,541</u>

See auditor's report on consolidation information.

Gridley Enterprises, Inc. and Subsidiaries
Gridley, Illinois

Schedule I

Consolidating Balance Sheet - December 31, 1997

	Gridley Enterprises, Inc.	Gridley Telephone Co.	Gridley Communications Inc.	Gridley Cellular, Inc.	Eliminating Entries	Consolidated Totals
CURRENT ASSETS						
Cash and cash equivalents	\$ 184,406	\$ 487,205	\$ 79,829	\$ 83,095	\$ -	\$ 834,535
Temporary investments	303,918	200,000	-	-	-	503,918
Accounts receivable:						
Due from customers	-	28,358	-	-	-	28,358
Unbilled interexchange services	-	40,710	-	-	-	40,710
Interexchange carriers	-	221,801	-	-	-	221,801
Affiliated companies	16,674	82,561	26,302	-	(125,537)	-
Other	-	22,868	6,738	6,035	-	35,641
Interest receivable	2,305	9,094	-	-	-	11,399
Inventories, at average cost:						
Plant materials and supplies	-	39,953	-	-	-	39,953
Prepaid income taxes	-	-	-	-	-	-
Other prepayments	-	17,191	12,973	-	-	30,164
	<u>507,303</u>	<u>1,149,741</u>	<u>125,842</u>	<u>89,130</u>	<u>(125,537)</u>	<u>1,746,479</u>
NONCURRENT ASSETS						
Cash value of life insurance	-	85,423	-	-	-	85,423
Investments - Affiliated companies	2,965,457	235,236	-	-	(3,200,693)	-
Investments - Cellular partnerships	-	-	-	214,848	-	214,848
Investments - Other	-	61,689	5,100	-	-	66,789
Deferred income taxes	-	80,479	-	(50,745)	-	29,734
Unamortized debt expense	-	4,254	-	-	-	4,254
	<u>2,965,457</u>	<u>467,081</u>	<u>5,100</u>	<u>164,103</u>	<u>(3,200,693)</u>	<u>401,048</u>
PROPERTY AND EQUIPMENT						
Telecommunications plant in service	-	4,585,345	-	-	-	4,585,345
Other property	-	71,621	-	-	-	71,621
	-	4,656,966	-	-	-	4,656,966
Less accumulated depreciation	-	2,297,132	-	-	-	2,297,132
	-	<u>2,359,834</u>	-	-	-	<u>2,359,834</u>
TOTAL ASSETS	<u>\$ 3,472,760</u>	<u>\$ 3,976,656</u>	<u>\$ 130,942</u>	<u>\$ 253,233</u>	<u>\$ (3,326,230)</u>	<u>\$ 4,507,361</u>

	Gridley Enterprises, Inc.	Gridley Telephone Co.	Gridley Communications Inc.	Gridley Cellular, Inc.	Eliminating Entries	Consolidated Totals
CURRENT LIABILITIES						
Accounts payable:						
Interexchange carriers	\$ -	\$ 14,131	\$ -	\$ -	\$ -	\$ 14,131
Affiliates	12,606	26,302	56,532	240,276	(335,716)	-
Other	-	147,622	-	467	-	148,089
Current portion of long-term debt	-	69,300	-	-	-	69,300
Accrued income taxes	61,810	(6,305)	18,872	-	(12,567)	61,810
Other accrued taxes	-	9,650	682	-	-	10,332
Other	-	1,826	-	-	-	1,826
	<u>74,416</u>	<u>262,526</u>	<u>76,086</u>	<u>240,743</u>	<u>(348,283)</u>	<u>305,488</u>
LONG-TERM DEBT, less current portion	-	<u>427,345</u>	-	-	-	<u>427,345</u>
NONCURRENT DEFERRED CHARGES						
Deferred compensation	-	327,318	-	-	-	327,318
Deferred investment tax credit	-	29,939	-	-	-	29,939
Deferred regulatory liability	-	18,927	-	-	-	18,927
	-	<u>376,184</u>	-	-	-	<u>376,184</u>
STOCKHOLDER'S EQUITY						
Common stock	26,600	26,600	25,000	1,000	(52,600)	26,600
Retained earnings	<u>3,371,744</u>	<u>2,884,001</u>	<u>29,856</u>	<u>11,490</u>	<u>(2,925,347)</u>	<u>3,371,744</u>
	<u>3,398,344</u>	<u>2,910,601</u>	<u>54,856</u>	<u>12,490</u>	<u>(2,977,947)</u>	<u>3,398,344</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$ 3,472,760</u>	<u>\$ 3,976,656</u>	<u>\$ 130,942</u>	<u>\$ 253,233</u>	<u>\$ (3,326,230)</u>	<u>\$ 4,507,361</u>

See auditor's report on consolidating information.

Consolidating Income Statement - Year Ended December 31, 1998

	Gridley Enterprises, Inc.	Gridley Telephone Co.	Gridley Communications Inc.	Gridley Cellular, Inc.	Eliminating Entries	Consolidated Totals
OPERATING REVENUES						
Local network services	\$ -	\$ 199,747	\$ -	\$ -	\$ -	\$ 199,747
Interstate access services	-	827,493	-	-	-	827,493
Intrastate access services	-	1,154,780	-	-	-	1,154,780
Long distance services	-	-	351,107	-	-	351,107
Miscellaneous	-	164,729	-	8,564	(26,053)	147,240
	-	<u>2,346,749</u>	<u>351,107</u>	<u>8,564</u>	<u>(26,053)</u>	<u>2,680,367</u>
OPERATING EXPENSES						
Plant specific operations	-	408,789	-	-	-	408,789
Plant nonspecific operations	-	58,814	178,276	-	-	237,090
Depreciation	-	434,581	-	-	-	434,581
Customer operations	-	179,304	88,322	25,149	(26,053)	266,722
Corporate operations	28,692	684,918	23,379	2,396	-	739,385
General taxes	-	13,163	(75)	-	-	13,088
	<u>28,692</u>	<u>1,779,569</u>	<u>289,902</u>	<u>27,545</u>	<u>(26,053)</u>	<u>2,099,655</u>
OPERATING INCOME (LOSS)	<u>(28,692)</u>	<u>567,180</u>	<u>61,205</u>	<u>(18,981)</u>	-	<u>580,712</u>
OTHER INCOME (EXPENSE)						
Interest and other income	30,578	33,913	3,152	40,920	-	108,563
Interest expense	(40,521)	(29,345)	-	-	-	(69,866)
Other expenses	-	(8,312)	-	-	-	(8,312)
	<u>(9,943)</u>	<u>(3,744)</u>	<u>3,152</u>	<u>40,920</u>	-	<u>30,385</u>
INCOME (LOSS) BEFORE INCOME TAXES	(38,635)	563,436	64,357	21,939	-	611,097
INCOME TAXES (BENEFIT)	<u>(14,963)</u>	<u>194,720</u>	<u>24,925</u>	<u>23,562</u>	-	<u>228,244</u>
INCOME (LOSS) BEFORE EQUITY EARNINGS OF SUBSIDIARIES	(23,672)	368,716	39,432	(1,623)	-	382,853
EQUITY EARNINGS OF SUBSIDIARIES	<u>406,525</u>	-	-	-	<u>(406,525)</u>	-
NET INCOME (LOSS)	<u>\$ 382,853</u>	<u>\$ 368,716</u>	<u>\$ 39,432</u>	<u>\$ (1,623)</u>	<u>\$ (406,525)</u>	<u>\$ 382,853</u>

The accompanying consolidating information

Gridley, Illinois

Schedule II

Consolidating Income Statement - Year Ended December 31, 1997

	Gridley Enterprises, Inc.	Gridley Telephone Co.	Gridley Communications Inc.	Gridley Cellular, Inc.	Eliminating Entries	Consolidated Totals
OPERATING REVENUES						
Local network services	\$ -	\$ 179,625	\$ -	\$ -	\$ -	\$ 179,625
Interstate access services	-	749,485	-	-	-	749,485
Intrastate access services	-	1,115,907	-	-	-	1,115,907
Long distance services	-	-	335,920	-	-	335,920
Miscellaneous	-	153,604	-	19,690	(47,961)	125,333
	-	<u>2,198,621</u>	<u>335,920</u>	<u>19,690</u>	<u>(47,961)</u>	<u>2,506,270</u>
OPERATING EXPENSES						
Plant specific operations	-	335,690	-	-	-	335,690
Plant nonspecific operations	-	57,639	166,529	-	-	224,168
Depreciation	-	395,565	-	-	-	395,565
Customer operations	-	150,890	85,835	18,254	(47,961)	207,018
Corporate operations	16,448	481,482	31,250	4,796	-	533,976
General taxes	-	36,688	821	-	-	37,509
	<u>16,448</u>	<u>1,457,954</u>	<u>284,435</u>	<u>23,050</u>	<u>(47,961)</u>	<u>1,733,926</u>
OPERATING INCOME (LOSS)	<u>(16,448)</u>	<u>740,667</u>	<u>51,485</u>	<u>(3,360)</u>	<u>-</u>	<u>772,344</u>
OTHER INCOME (EXPENSE)						
Interest and other income	6,873	63,155	692	36,769	-	107,489
Interest expense	-	(34,201)	-	-	-	(34,201)
Other expenses	-	(29,367)	-	-	-	(29,367)
	<u>6,873</u>	<u>(413)</u>	<u>692</u>	<u>36,769</u>	<u>-</u>	<u>43,921</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>(9,575)</u>	<u>740,254</u>	<u>52,177</u>	<u>33,409</u>	<u>-</u>	<u>816,265</u>
INCOME TAXES (BENEFIT)	<u>(3,709)</u>	<u>256,650</u>	<u>20,208</u>	<u>(6,837)</u>	<u>-</u>	<u>266,312</u>
INCOME (LOSS) BEFORE EQUITY EARNINGS OF SUBSIDIARIES	<u>(5,866)</u>	<u>483,604</u>	<u>31,969</u>	<u>40,246</u>	<u>-</u>	<u>549,953</u>
EQUITY EARNINGS OF SUBSIDIARIES	<u>555,819</u>	<u>40,246</u>	<u>-</u>	<u>-</u>	<u>(596,065)</u>	<u>-</u>
NET INCOME (LOSS)	<u>\$ 549,953</u>	<u>\$ 523,850</u>	<u>\$ 31,969</u>	<u>\$ 40,246</u>	<u>\$ (596,065)</u>	<u>\$ 549,953</u>

CERTIFICATE OF SERVICE

ICC Docket No. 00-0028

The undersigned, TROY A. FODOR, hereby certifies that on the 5th day of April, 2000, he served a copy of the foregoing instrument by personally delivering a copy thereof and/or mailing a copy thereof by United States Mail, postage prepaid, at Springfield, Illinois, to the individuals named below in envelopes plainly addressed to each of them.

Mr. Larry Jones
Hearing Officer
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62706

Ms. Judy Marshall
Telecommunications
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62706

Ms. Stacy Buecker
Telecommunications
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62706

Ms. Cindy Jackson
Consumer Services
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62706



TROY A. FODOR